

Message Text

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C O N F I D E N T I A L TEHRAN 1472

E.O. 11652: GDS

TAGS: ENRG, IR

SUBJ: CODEL MCCLURE WRAPUP

1. CODEL MCCLURE, IN TEHRAN JAN. 31-FEB. 4, MET WITH NIOC DIRECTOR OF INTERNATIONAL AFFAIRS PARVIZ MINA, NIGC MANAGING DIRECTOR MOSSADEGHI, CENTRAL BANK PRESIDENT YEGANEH, SENIOR DIPUTY MINISTER MEHRAN OF MINISTRY ECON AND FINANCE, UNDER-SECRETARY BAHADORI OF MINISTRY OF COURT, IRANIANS BANK BOARD CHAIRMAN ABOL HASSAN EBTEHAJ AND OIL CONSORTIUM REPRESENTATIVES ROGER VARIAN AND BURT WILLMAN. ALSO HAD EMBASSY AND ARMISH-MAAG BRIEFINGS.

2. HIGHLIGHTS OF VISIT AS FOLLOWS:

A. MINA NOTED THAT WHILE NIOC IS HIGHLY OPTIMISTIC ABOUT NEW NONASSOCIATED GAS DISCOVERIES, KHUZESTAN FIELDS (EX CONSORTIUM AREA) WILL BE GAS DEFICIT AREA (SENATOR MUCH SURPRISED TO LEARN THIS); NOT ONLY WILL FLARES BE EXTINGUISHED IN A FEW YEARS, BUT NONASSOCIATED GAS WILL BE REQUIRED FROM NEARBY AREAS FOR SECONDARY RECOVERY PROGRAM. ON INVESTMENT AND RECYCLING OF OPEC REVENUES, DR. MINA COMMENTED THAT ONLY THREE COUNTRIES (SAUDI ARABIA, ABU DHABI AND KUWAIT) WILL HAVE SIGNIFICANT SURPLUSES AND THAT IT IS "UP TO THE WEST TO DECIDE WHETHER INVESTMENT CAN FLOW INTO DEVELOPED ECONOMIES." MINA ACKNOWLEDGED OIL PRICE HAD INCREASED "TOO FAST," BUT SAID REASON FOR THIS WAS THAT INCREASES SHOULD HAVE BEGUN TEN YEARS EARLIER. MINA REITERATED GOI'S DISASSOCIATION FROM OIL EMBARGOES, PAST AND FUTURE. THERE WAS A SOMEWHAT STRAINED EXCHANGE ON SUBJECT OF JUSTIFICATION FOR OIL PRICE LEVELS, AND A BRIEF
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DISCUSSION OF IRAN'S ROLE IN OPEC, WHICH MINA CLAIMED WAS ONE

OF MODERATION AND COMPROMISE. IN CONNECTION WITH OIL PRICES MINA AND CODEL BRIEFLY AND INCONCLUSIVELY DISCUSSED COSTS OF COAL MINING, GASIFICATION AND LIQUEFACTION AND OTHER ALTERNATIVES TO PETROLEUM. MINA ALSO NOTED THAT GOI HAS BEEN CALLING FOR CONSUMER/PRODUCER DIALOGUE, BUT CONSUMERS HAVE DELAYED. DISCUSSION ALSO TOUCHED ON QUESTION OF WHETHER AND HOW MUCH CONSUMPTION CAN BE REDUCED AND ON ROLE OF OIL COMPANIES AND DEGREE TO WHICH THEY CONCERT THEIR POLICIES.

B. MOSSADEGHI GAVE SENATOR EXTREMELY UPBEAT VIEW OF IRAN'S GAS RESERVES (IRAN WILL SOON BE FIRST IN THE WORLD, HE SAID) AND RATHER OPTIMISTIC VIEWS ON RAPIDITY OF IMPLEMENTATION OF LARGE GAS EXPORT PROJECTS.

C. YEGANEH AND SENATOR DISCUSSED CENTRAL BANK POLICIES IN GENERAL TERMS AND YEGANEH EXPRESSED NOW FAMILIAR VIEW THAT IRAN WILL BE BORROWER AGAIN IN THREE YEARS.

D. DEPUTY MINISTER MEHRAN DISCUSSED DEVELOPMENT POLICIES AND PROBLEMS AND GROWTH OF THE CITY OF TEHRAN.

E. SENATOR AND UNDERSECRETARY BAHADORI MOSTLY DISCUSSED THE POLITICAL SITUATION IN THE MIDDLE EAST. BAHADORI REPEATEDLY EMPHASIZED IMPORTANCE GOI ATTACHES TO ACTIVE US ROLE IN REGION AND SAID IT IS CRUCIAL THAT USG HELP ACHIEVE ARAB-ISRAELI SETTLEMENT SOON, WHILE THERE IS POSSIBILITY OF RELATIVELY "MODERATE" LEADERSHIP OF A PALESTINIAN STATE. ALSO EMPHASIZED ISRAEL MUST ACCEPT PALESTINIAN STATE - "SOONER OR LATER THERE WILL CERTAINLY BE ONE" - AND MUST WITHDRAW FROM ARAB PART OF JERUSALEM. SENATOR SAID HE HAD SEEN LITTLE SIGN IN ISRAEL OF WILLINGNESS TO REACH THIS SORT OF ACCOMMODATION; ON THE CONTRARY, ISRAELIES, HE SAID, SEEM TO BE IN MORE MILITANT, LESS FLEXIBLE STATE OF MIND, WILLING TO GO DOWN FIGHTING. F. SENATOR'S TALK WITH CONSORTIUM REPRESENTATIVES COVERED BOTH OPERATIONS AND PRICING MATTERS. IN RESPONSE TO SENATOR'S QUESTION, CONSORTIUM REPRESENTATIVES SAID THEY SAW NO REPEAT NO CHANCE OF DECREASE IN OIL PRICES IN NEAR TERM.

3. IN SUM, THERE WERE NO SURPRISES. WE HAD HEARD IT ALL BEFORE AND OUR IMPRESSION WAS THAT, EXCEPT FOR GAS SITUATION IN FORMER CONSORTIUM FIELDS, SENATOR HEARD PRETTY MUCH WHAT HE EXPECTED TO HEAR.

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